



**PREPARED BY THE OFFICE OF
THE ATTORNEY GENERAL**



Most students will receive a financial aid award letter from their college. This letter may set forth a number of options for financing their college education, including grants (which do not have to be paid back), scholarships, and work study (earning money while enrolled in school to help cover educational expenses). Some loans that may be offered are Stafford loans (subsidized or unsubsidized) and PLUS loans (usually taken out by parents or by graduate students). These loans are guaranteed by the federal government.

Due to the rising costs of college, students may also need to consider additional loans. It is important that you shop around for the best deal.

Scholarships and loans may also be available from, or in partnership with, the State of Michigan. For more information on Michigan-specific help, please visit www.michigan.gov/mistudentaid.

We prepared this brochure to help you understand and compare education loan options. As your Attorney General, I continue to watch the marketplace to ensure that you receive all the information necessary to make important financial decisions.

MIKE COX
ATTORNEY GENERAL

Complaints

Students who run into problems with choosing a lender that is not on their school's preferred lender list or who have other problems with their federal student loan should contact the U.S. Department of Education's Ombudsman by phone at 1-877-557-2575 or by email at fsaombudsmanoffice@ed.gov.

Michigan students who have problems choosing a lender that is not on their schools' preferred lender list or who otherwise believe they have been misled in the student lending process may also contact the Michigan Attorney General at 1-877-765-8388 or by email at miag@michigan.gov.

Student Loan Guide

EXHAUST FEDERALLY GUARANTEED LOANS BEFORE SEEKING PRIVATE LOANS

The key to applying for federal student aid is completing the Free Application for Federal Student Aid (FAFSA). This Application also may qualify students for grants, work study, and other forms of student aid. Federally guaranteed, low-interest loans, such as Stafford and PLUS loans, should be exhausted before turning to more expensive private loans. Complete federal student aid information is available at www.studentaid.ed.gov.

The federal government sets the maximum interest rates on federally guaranteed loans, but some lenders will discount that rate. Look for rate discounts, waiver of loan fees, reduction in loan principal, or other benefits that cannot be taken away.

Good options for Michigan residents are federal and alternative loans available through the Michigan Higher Education Student Loan Authority. Michigan families may be eligible for payment or reimbursement of the federal loan origination fee and reduction of interest rate to zero percent after the first 36 monthly on-time payments. Details are available at www.michigan.gov/mistudentaid.

You Have the Right to Use the Lender of Your Choice

Federal law gives you the right to pick the lender of your choice. Some schools have “preferred lender” lists, but these lenders are merely a recommendation and students and their parents remain free to pick their own lender.

Do Not Rely Solely on the School’s Preferred Lender List

If your school has a preferred lender list, it is important to understand that different schools use different criteria to determine which lenders should be placed on their preferred lists, and these lenders may not always offer the best rates or terms available. Thus, lenders on a particular school’s preferred list may or may not be the best choice for you. Determine how lenders get placed on the list and how important these factors are to your determination of the best loan for you. Competitive rates and a proven track record of working with your school are important considerations. If the lender you choose does not have a proven track record of working with your school, make sure the school is aware of the lender you plan to use as soon as possible to avoid delays in processing.

Private Student Loans

Private or alternative loans have terms set by the individual lender, not the government, and the rates are based on a borrower’s credit history. These loans are more expensive than federal loans and include fees. Fees can significantly increase the cost of the loan. Look for a loan with a relatively low interest rate and low fees. A creditworthy cosigner will help lower the rate a student is charged.

Be careful when comparing loans with different repayment terms according to the annual percentage rate (APR). A longer loan term reduces the APR despite increasing the total amount of interest paid.

Also note that it is not uncommon for lenders to advertise a lower rate for the in-school and grace period, with a higher rate in effect when the loan enters repayment. Online financial calculators are important tools to use to generate meaningful comparisons of different loan programs.

LOAN GUIDANCE



- 1 Get the best rates.** Shop around to make sure you are getting the best deal. Important things to keep in mind include interest rates (whether they are fixed or variable and how they are calculated), any additional fees, and the lender’s deferment or forbearance policies. There are some Web sites, including www.Finaid.org, that compare private lenders. But these sites often have financial ties to lenders who sponsor them or advertise on them. You should still contact lenders individually to learn about their loan terms and make your own decision about whether their loan is right for you.
- 2 Be wary of promises to lower your interest rate.** Some lenders may offer an interest rate reduction to students if they make their first 24 or 36 monthly payments on time. However, most lenders also know that this is a difficult requirement for borrowers to meet. Even if you make your first 22 payments on time, if the 23rd payment is late, even by a day, the reduced rate likely will not become effective. Also, be sure the interest rate reduction will transfer if your loan is sold to another lender. Get all the facts before you make a decision based on a promise like this.
- 3 Read all documents carefully before signing!** This is true of any contract or document you sign. Before you sign, make sure the loan agreement matches any advertised rates the lender promised. If it differs, ask the lender about the difference BEFORE you sign.
- 4 Keep copies of all paperwork.** This is important because often payments on student loans begin after students graduate from school, and this can be several years away. If you keep all of your loan documents, you will know exactly what the terms of your loan are and you can ensure the lender complies with those terms.